

ENVIRONMENTAL RISK

Environmental concerns have become increasingly important for almost every type of project. Compliance with local and international requirements is a minimum requirement. If multilateral lending agencies are involved, lenders will want to be certain that their environmental requirements are met. Insurance companies may also have their own environmental conditions.

SOVEREIGN RISK

Sovereign risks can include confiscation, expropriation or nationalization with or without compensation. Related risks include:

- limitations on sales;
- limitations on expansion;
- currency devaluation;
- changes in exchange control regulations;
- restrictions on remittances;
- higher or discriminatory taxes; and
- duties or withholdings.

The most difficult areas of sovereign risk assessment are those resulting from political instability following changes in the controlling party or leader; disputes between government departments; or between federal, state and local authorities.

INSURANCE

Lenders want to see that all insurable risks have been covered. In complicated project financing, it is frequently advisable to employ the services of a specialist insurance advisor to review all insurable risks and to provide an opinion about the risks that should be covered by the project developer.

FINANCING PLAN

Lenders will carefully review the entire financing plan for the project. Project developer equity should be assured and a debt/equity ration set at realistic levels. Equity should normally be injected ahead of debt under the credit arrangement.